

Message Text

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PAGE 01 OSLO 04499 160657Z

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SUBJ: DETAILS OF NORWEGIAN BUDGET PROPOSAL FOR 1976

REF: OSLO 4406

1. NORWAY'S EXPANSIONARY FISCAL BUDGET PROPOSALS FOR 1976 (FISCAL AND CALENDAR YEARS ARE THE SAME) ARE BASED ON THE BOTTOMING OUT THIS WINTER OF CURRENT SLOWDOWN IN NORWAY, AN UPTURN AND INCREASED EXPORTS IN 1976, AND THE CONTINUED USE OF ANTICIPATED OIL REVENUE TO STIMULATE DOMESTIC DEMAND AND AVOID UNEMPLOYMENT. GNP IS EXPECTED TO RISE 7PERCENT(5.1PERCENT IN

1975), WAGES 12.5PERCENT(19PERCENT IN 1975) AND REAL PER CAPITA DISPOSABLE INCOME 3PERCENT FOR EMPLOYED PERSONS(UP TO 6PERCENT IN 1975) AND 4PERCENT FOR THOSE ON SOCIALSECURITY AND PENSIONS. EXPENDITURES WILL RISE 18.3PERCENT--MOSTLY WAGES AND PRICES--OR 6PERCENT
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PAGE 02 OSLO 04499 160657Z

IN REAL TERMS(5.5PERCENT IN 1975) TO \$8.9BILLION AT 5.6KRONER-

\$1.00. REVENUE WILL RISE 19.3PERCENT TO \$7.4BILLION, LEAVING A DEFICIT OF \$225MILLION,ABOUT THE SAME AS IN 1975.

2. THE FISCAL BUDGET DOES NOT INCLUDE THE SEPARATE SOCIAL SECURITY BUDGET WHICH SHOWS A 6.8PERCENT SURPLUS ON INCOME OF 4.4BILLION AND 11.7PERCENT INCREASE IN EXPENDITURES. NO MAJOR NEW WELFARE PROGRAMS ARE PROPOSED,CONTINUING THE GOVERNMENT'S EMPHASIS ON IMPROVING THE QUALITY OF NORWAY'S WELFARE STATE RATHER THAN EXTENDING ITS SCOPE. TOTAL GOVERNMENT EXPENDITURES AT ALL LEVELS ARE PROJECTED AT 46.9 PER CENT OF EXPECTED 1976 GNP,AN INCREASE OF 0.2PERCENT OVER 1975.

3. WAGE/INCOME SETTLEMENT CONSIDERATIONS ARE AN IMPORTANT GROWING FEATURE OF THE BUDGET, AND THE GOVERNMENT IS INCREASINGLY USING FISCAL AND MONETARY MEASURES AS WELL AS DIRECT CONTROLS TO SPONSOR NATIONAL LABOR SETTLEMENTS AND TO COORDINATE THEM WITH GOVERNMENT POLICY. A GOVERNMENT PACKAGE REFLECTED IN THE 1976 BUDGET WAS AN IMPORTANT PART OF THE FALL SETTLEMENT WHERE WORKERS AGREED TO RELATIVELY MODEST PAY INCREASES IN RETURN FOR TAX REDUCTIONS AND INCREASED SUBSIDIES AS WELL AS A PRICE FREEZE DURING 1976. AT THE REQUEST OF BOTH UNIONS AND EMPLOYERS THE TAX RELIEF AND SUBSIDY INCREASES AGREED UPON AS PART OF THIS SETTLEMENT WILL LAPSE NEXT SPRING WHEN MOST CURRENT LABOR CONTRACTS EXPIRE.

4. IN PRESENTING THE 1976 BUDGET,FINANCE MINISTER KLEPPE SAID THAT REDUCING INFLATION WAS A MAJOR OBJECTIVE OF THE GOVERNMENT AND THAT THE GOVERNMENT WAS PREPARED TO OFFER FURTHER TAX RELIEF AND SUBSIDIES IN CONNECTION WITH THE NATIONWIDE NEGOTIATIONS FOR NEW LABOR CONTRACTS THIS COMING SPRING,PROVIDED A REASONABLE, RELATIVELY UNINFLATIONARY AGREEMENT COULD BE REACHED. HE CLAIMED THAT INFLATION WILL BE REDUCED 2PERCENT BY THE PACKAGE AGREED UPON THIS FALL AND PROJECTED A 8.5 PERCENT INFLATION RATE FOR 1976(11.5PERCENT IN 1975) IF A SATISFACTORY WAGE SETTLEMENT WAS CONCLUDED IN THE SPRING. HE ALSO PROMISED THE GOVERNMENT WOULD FOLLOW CLOSELY AND REACT QUICKLY TO INTERNATIONAL AND DOMESTIC DEVELOPMENTS.

5. THE MAIN GOAL OF THE BUDGET IS TO MAINTAIN EMPLOYMENT
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PAGE 03 OSLO 04499 160657Z

(UNEMPLOYMENT IS CURRENTLY 1.3PERCENT,MORE THAN DOUBLE CUSTOMARY LEVELS AND A POSTWAR RECORD) BY ENCOURAGING DOMESTIC DEMAND.

20,000 NEW JOBS WILL BE CREATED THIS WINTER; EDUCATIONAL AND VOCATIONAL TRAINING FACILITIES WILL BE EXPANDED; BANK CREDIT EXPANDED(THE DISCOUNT RATE WAS ALSO DROPPED 0.5PERCENT TO 5PERCENT) AND PUBLIC WORKS EXPENDITURES RAISED. UNEMPLOYMENT AND SOCIAL SECURITY BENEFITS WILL ALSO RISE.

6. THERE WILL BE SOME ADDITIONAL TAX REDUCTIONS,NAMELY BENEFITTING LOWER INCOME GROUPS,BEYOND THOSE AGREED UPON DURING THE FALL WAGE SETTLEMENT,BUT GOVERNMENT INCOME TAX REVENUE WILL RISE AS A RESULT OF INFLATION AND TAX PROGRESSION. FOR THE FIRST TIME IN YEARS COMPANY TAXES WILL NOT BE RAISED AND WILL BE LOWERED ON SHIPS AND FOR RENOVATION OF FACTORIES TO MEET POLLUTION CONTROL REGULATIONS. TAXES ON BEER, CIGARETTES, AND TELEPHONES ARE TO BE INCREASED AND OIL REVENUE WILL CONTRIBUTE NEARLY HALF A BILLION DOLLARS TO REVENUE.

7. IMPORTS ARE EXPECTED TO RISE 3.4PERCENT IN VOLUME(1.9PERCENT IN 1975) TO \$12.2BILLION AND EXPORTS 12.9PERCENT IN VOLUME(0.5PERCENT IN 1975) TO \$12.8BILLION IN 1974 PRICES. A BALANCE OF PAYMENTS DEFICIT OF \$2.0 BILLION IS EXPECTED, DOWN FROM \$2.6BILLION NOW FORECAST FOR 1975 AND IS TO BE LARGELY COVERED BY BORROWING FROM ABROAD. OIL EXPORTS WILL DOUBLE TO \$1.3BILLION, AND FREIGHT EARNINGS FROM SHIPPING WILL TOTAL \$1.5BILLION.

8. AN 11.3PERCENT INCREASE(2.3PERCENT IN REAL TERMS) TO \$871MILLION IS PROPOSED FOR DEFENSE SPENDING. THIS INCLUDES INITIAL EXPENDITURES FOR THE F-16 AND ROLAND MISSILE BUT NOT FUNDS FOR A NEW COAST GUARD WHICH WILL BE REQUESTED SEPARATELY THIS WINTER OR SPRING. IT CONTINUES THE STEADY EROSION (DOWN ONE PERCENT TO 9.8PERCENT SINCE 1974) IN DEFENSE'S SHARE OF TOTAL SPENDING PROPOSED BY GOVERNMENT IN ITS FISCAL BUDGET. A YEARLY INCREASE OF 1.8PERCENT IN DEFENSE SPENDING IN REAL TERMS,PRESUMABLY INCLUDING THE COAST GUARD, IS PROJECTED FOR 1976-77. THE DRAFT AGE WILL BE REDUCED BY ONE YEAR TO NINETEEN. THIS MEANS THAT UNDER THE NORWEGIAN SYSTEM SOME 18 YEAR OLDS CAN NOW BE INDUCTED. CONTINUED EMPHASIS WILL BE PUT ON EQUIPMENT AND 430 NON-COMBAT POSITIONS WILL BE

UNCLASSIFIED

PAGE 04 OSLO 04499 160657Z

PHASED OUT BY 1979-100IN 1976.

9. FOREIGN AID WILL BE INCREASED 29PERCENT TO 0.73 OF GNP. HALF WILL CONTINUE TO BE BILATERAL AND HALF MULTILATERAL AND ALL WILL CONTINUE IN THE FORM OF GRANT AID.

10. AS PREVIOUSLY REPORTED, THEBUDGET CONTAINS NO SURPRISES, CONTINUES AND EXTENDS PROGRAMS INTRODUCED BY THE GOVERNMENT OVER THE PAST YEAR IN CONNECTION WITH WAGE SETTLEMENTS AND TO COMBAT THE SLOWDOWN, IS RELATIVELY NON-CONTROVERSIAL, AND SHOULD BE PASSED WITHOUT MAJOR CHANGE. COMMENTS ON SEPARATE PARTS OF THE BUDGET,NOTABLY ON THE DEFENSE SPENDING PROPOSALS, WILL BE TRANSMITTED LATER AS APPROPRIATE.

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